

UNITED STATES DEPARTMENT OF AGRICULTURE
Rural Electrification Administration

Washington, February 25, 1950

USDA Announces First REA Rural Telephone Loan:

The Rural Electrification Administration today allocated funds for its first rural telephone loan, the Department of Agriculture announced.

The loan allocation of \$243,000 was made to the Florala Telephone Company of Florala, Alabama, for improvement and expansion of rural telephone service in a three-county area in southern Alabama and northern Florida. The company is at present individually owned but will be incorporated under broadened ownership.

The company will use the loan funds, plus the proceeds from the sale of stock to local residents, for the following purposes:

To rebuild 59 miles of its present 84-mile telephone system in Covington County, Alabama, and Okaloosa and Walton Counties, Florida;

To replace its present magneto switchboard and equipment at Florala with modern common battery equipment;

To build a new automatic dial exchange at Laurel Hill, Florida, as a satellite of the Florala exchange;

To build 130 miles of new rural telephone lines;

To place telephone wires on 80 miles of electric power lines operated by REA-financed electric cooperatives in the area; and

To refinance an existing loan of \$10,000.

The loan allocation is the first step in providing adequate telephone service for every rural resident of the company's service area, in accordance with the area coverage principle of the REA telephone loan program.

Construction under the present loan will enable the company to provide better service to its present 447 subscribers, and add 1,053 new rural subscribers. It will provide the backbone facilities for an area-wide telephone system, so that only service drops and short spurs will be needed to complete area coverage. The company has agreed, after completion of this immediate program, to continue construction until service is available to all of the remaining estimated 960 rural families in the service area. It will obtain the funds for this continued expansion either out of revenue or by applying for additional REA loans. With the area coverage objective in view, the company will retain a substantial amount of the surplus earnings in the system.

The full system contemplated thus will make modern telephone service available to 2,460 rural subscribers. State Commission approval

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will be asked for a schedule of uniform rates throughout the service area, with varying classes of service. The present long-distance circuits of the company will be expanded and full world-wide service will be available through interconnections.

The Floraia Telephone Company has been in existence since 1901. Its present facilities are loaded to capacity. While a portion of the present system will have to be replaced, the remaining equipment and the headquarters building will have substantial value as integrated parts of the new system. The Government will receive a first mortgage on all property — existing and new — as security for the loan.

The company is at present owned by Lloyd G. Vaughan, but the ownership is being expanded by the sale of \$30,000 in stock to local residents. Of this amount \$26,000 has already been subscribed.

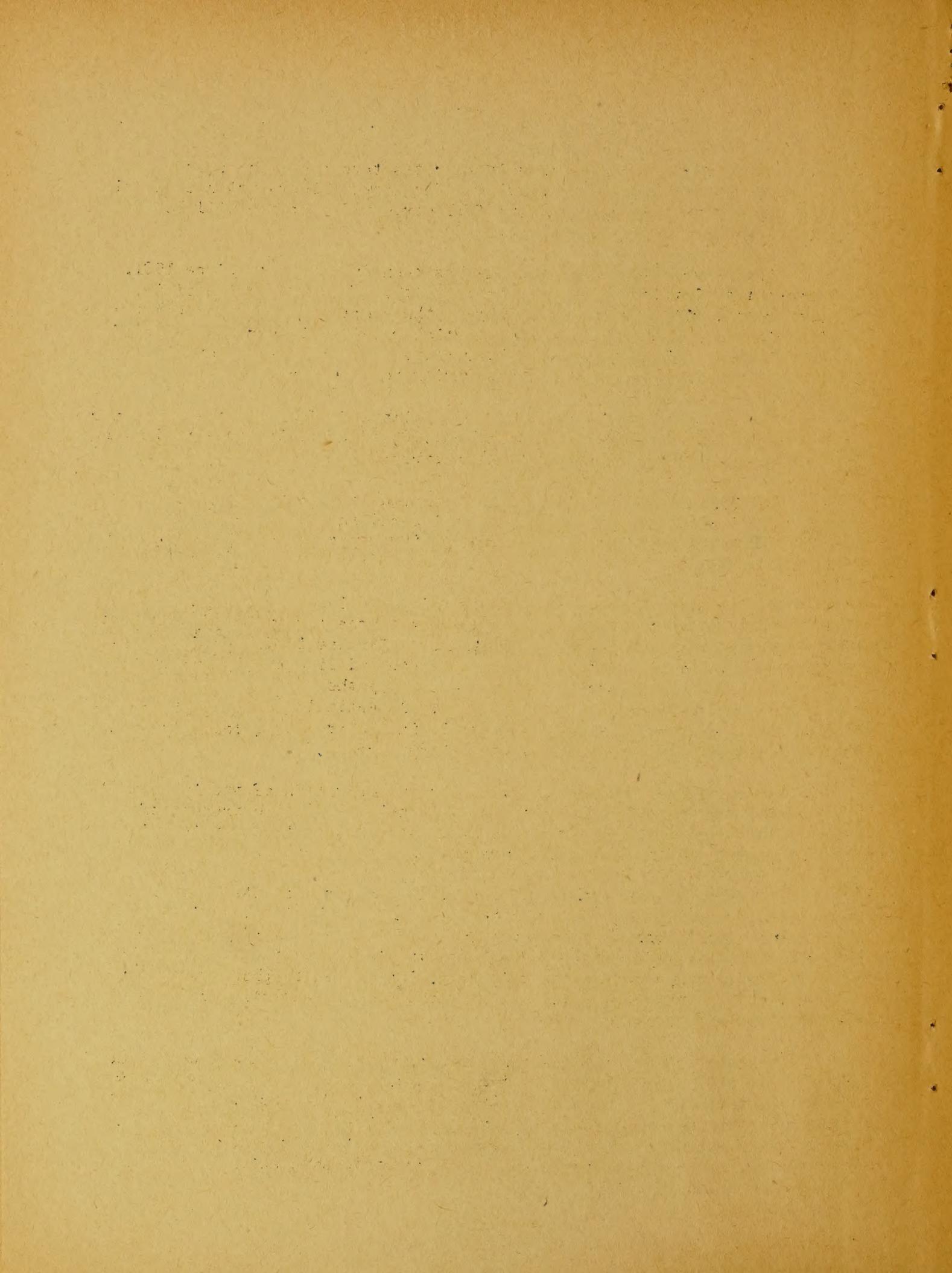
Anticipated revenues from the proposed telephone system give assurance of continuity of adequate service and funds sufficient to meet all the obligations of the company, including repayment of the Government loan with interest.

The economic outlook in the Floraia area is favorable to continued and expanded use of the telephone. The rural area surrounding the town is about half in farm land and half in timber. Farming is diversified, including production of cotton, pecans, peanuts and livestock. Production of tung nuts has increased to a large extent in the last few years and is providing a stable source of farm income. A continuing yield lumbering program has been adopted. Farm ownership in the area is relatively high, and farm electrification is estimated at 90 percent.

Other factors favorable to successful operation of the improved telephone system include good subscriber density, relative freedom of the area from sleet and storm damage, and the fact that the system will be large enough to afford good management and maintenance.

In making use of electric facilities in parts of its service area, the telephone company will cooperate with three of REA's electrification borrowers — the Wiregrass Electric Cooperative of Hartford, Ala.; the Covington Electric Cooperative of Andalusia, Ala.; and the Choctawhatchee Electric Cooperative of DeFuniak Springs, Fla. The telephone company will pay the electric cooperatives an annual rental for each pole used, and each will maintain its own wires.

The loan will be for the maximum permissible amortization period of 35 years and will bear interest at 2 percent. Counsel and assistance will be made available to the borrower by REA as needed on technical and operating problems. Funds will be made available and construction will proceed after execution of the necessary documents, including the loan agreement and mortgage, and after necessary State Commission approvals have been obtained.



This is the first allocation of funds under the Hill-Poage rural telephone act which became effective October 28, 1949, as an amendment to the Rural Electrification Act of 1936. Under its provisions, REA may make long-term loans for extension or improvement of rural telephone service, with preference to existing suppliers of rural telephone service and to cooperatives.

REA is completing 15 years as a lending agency for rural electrification, and its loans total more than two billion dollars. In that 15-year period, the national percentage of farms with electricity has increased from about 10 to more than 80.

On approving this first allocation of telephone loan funds, REA Administrator Claude R. Wickard said:

"This marks the first application of the REA pattern outside the field of rural electric service. With only about 40 percent of our farms having telephones, and perhaps half of these farm telephones providing unsatisfactory service, there is an urgent need for improvement in this field.

"Congress has authorized this agency to apply the same basic formula to remedy this situation that has been effective in rural electrification. We know, from our preliminary studies, that the development of this program will involve many new and difficult problems. We believe, however, that if we can have the cooperation of all enterprises and agencies concerned in providing rural telephone service, substantial improvement can be made.

"Since the passage of the new legislation, we have recruited the nucleus of our additional staff, assigning these telephone specialists to positions within our present administrative framework.

"Many leaders of the telephone industry have been in consultation with us. Their advice and cooperative attitude have been very helpful. This applies to both the Bell System and the organized independents. We have also had conference with many representatives of farmer organizations and of State regulatory commissions. Uniformly, they have been sympathetic with our problems and helpful in exploring solutions.

"At the same time, manufacturers and suppliers of telephone equipment, contractors, and engineers have also volunteered help. Our own technicians are at work on standard construction specifications which will be promulgated very soon, and they are interested in the possible development of new equipment or lower costs for present equipment.

"Under the telephone act, our primary responsibility is to make it possible for rural people to have adequate telephone service through self-liquidating loans. The program can also have substantial benefits for the telephone industry, as the loan to the Flora Telephone Company indicates. Moreover, the program will provide enormous business opportunities for a great many other diversified industries and professions.

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